

NEW BRANCHES SCHOOL
Kent County, Michigan

Comprehensive Annual Financial Report

For the year ended June 30, 2008

NEW BRANCHES SCHOOL
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For the year ended June 30, 2008

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FINANCIAL SECTION

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

October 8, 2008

The Board of Directors
New Branches School

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of New Branches School (the "School") as of and for the year ended June 30, 2008, which collectively comprise the Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's elected officials and management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund and the aggregate remaining fund information of New Branches School at June 30, 2008, and the respective changes in financial position and budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2008 on our consideration of New Branches School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of New Branches School. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hungerford, Aldrin, Nichols & Carter, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

NEW BRANCHES SCHOOL
Management's Discussion and Analysis
June 30, 2008

As management of New Branches School, we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with New Branches' financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of New Branches:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *school-wide* financial statements that provide both short-term and long-term information about New Branches' overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of New Branches, reporting operations in more detail than the district-wide statements.
 - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes combining and individual fund statements.

School-wide Statements

The school-wide financial statements report information about New Branches as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of New Branches' assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two school-wide statements report New Branches' net assets, and how they have changed. Net assets - the difference between assets and liabilities - is one way to measure New Branches' financial health or position.

- Over time, increases or decreases in New Branches' net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess New Branches' overall health, one should consider additional non-financial factors such as changes in pupil membership and the condition of the school's building and equipment.

In the school-wide financial statements, New Branches' activities are presented as follows:

- *Governmental activities*: New Branches' basic services are included here, such as regular and special education, instructional support, administration, community services and food service. State aid finances most of these activities.

NEW BRANCHES SCHOOL
Management's Discussion and Analysis
June 30, 2008

Condensed School -Wide Financial Information

The Statement of Net Assets provides financial information for New Branches as a whole.

	<u>2008</u>	<u>2007</u>
Assets		
Current assets	\$ 462,309	\$ 356,782
Net capital assets	<u>187,290</u>	<u>67,758</u>
Total Assets	<u>649,599</u>	<u>424,520</u>
Liabilities		
Current liabilities	131,755	84,370
Non current liabilities	<u>42,138</u>	<u>—</u>
Total Liabilities	<u>173,893</u>	<u>84,370</u>
Net Assets		
Invested in capital assets, net of related debt	106,490	67,758
Unrestricted	<u>369,216</u>	<u>272,412</u>
Total Net Assets	<u>\$ 475,706</u>	<u>\$ 340,170</u>

NEW BRANCHES SCHOOL
Management's Discussion and Analysis
June 30, 2008

The results of the fiscal year's operations for New Branches as a whole are presented in the Statement of Activities, which shows the change in total net assets for the year.

	<u>2008</u>	<u>2007</u>
Program Revenues		
Charges for services	\$ 23,157	\$ 30,161
Operating grants	278,417	226,454
General Revenues		
State school aid, unrestricted	1,317,039	1,117,877
Interest earnings	2,545	1,778
Other	41,900	59,212
Total Revenues	<u>1,663,058</u>	<u>1,435,482</u>
Expenses		
Instruction	895,988	748,046
Supporting services	556,298	524,667
Community services	25,084	21,116
Other	—	160
Food service	50,152	49,677
Total Expenses	<u>1,527,522</u>	<u>1,343,666</u>
Increase in net assets	135,536	91,816
Net Assets - Beginning of Year	<u>340,170</u>	<u>248,354</u>
Net Assets - End of Year	<u><u>\$ 475,706</u></u>	<u><u>\$ 340,170</u></u>

Financial Analysis of the School as a Whole

New Branches' financial position is the product of many factors. The significant increase in State aid revenues was the result of an increased student count of twenty-two from 2006-07 to 2007-08.

Unrestricted state aid accounted for most of New Branches's revenue, contributing 79 percent of every dollar raised. Another 17 percent came from State, federal and local aid for specific programs and the remainder from fees charged for services and miscellaneous sources.

New Branches's expenses are predominantly related to instructing students (59 percent). Instruction support, administration and operation and maintenance accounted for 38 percent of total costs. Food service and child care expenses accounted for the remaining 3 percent of the total costs. The most significant contributors to higher costs were salaries and benefits for additional instructional personnel, and health insurance premium increases.

Total revenues surpassed expenses, increasing net assets by \$135,536.

New Branches has continued to monitor the General Fund expenditure budget through stringent purchasing controls.

NEW BRANCHES SCHOOL
Management's Discussion and Analysis
June 30, 2008

Fund Financial Statements

The fund financial statements provide more detailed information about New Branches' funds, focusing on its most significant or "major" fund (the General Fund) - not the school as a whole. Funds are accounting devices used to keep track of specific sources of funding and spending on particular programs.

New Branches utilizes only one kind of fund:

- *Governmental funds:* All of New Branches' basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed, short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance school programs. Because this information does not encompass the additional long-term focus of the school-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.

Financial Analysis of the School's Funds

New Branches uses funds to record and analyze financial information. New Branches' funds are described as follows:

Major Fund

The General Fund is New Branches's primary operating fund. The General Fund had total revenues of \$1,612,762, total expenditures of \$1,597,391, and total other financing sources of \$80,800. It ended the fiscal year with a fund balance of \$366,992, up from \$270,821 as of June 30, 2007. The increase was primarily due to a higher student count, leading to increased State and other grant revenues.

Nonmajor Fund

New Branches operates one nonmajor Special Revenue Fund, for the food service program. Total revenues were \$50,296, with total expenditures of \$49,663. The ending fund increased to \$2,224 at June 30, 2008.

General Fund Budgetary Highlights

New Branches revised the annual operating budget once during the year. These budget amendments and the differences between budgeted and actual amounts were as follows:

- Changes made in February to reflect actual State and grant awards resulting from the final student enrollment count that determines how much foundation grant school aid will be received during the fiscal year, and to adjust expenditures to coordinate with the increased revenues.
- Although the School's final budget for the General Fund anticipated revenues would exceed expenditures by \$43,386, the actual results for the year show a \$96,171 increase for the fiscal year.
- Actual revenues were \$10,905 higher than expected, due mainly to increased State aid foundation and special education grants.
- Actual expenditures were \$52,165 over budget, due primarily to year-end capital outlay expenditures for new portable classrooms.

NEW BRANCHES SCHOOL
Management's Discussion and Analysis
June 30, 2008

Capital Asset and Debt Administration

Capital Assets

By the end of 2008, New Branches had invested a total of \$329,220 in capital assets, including land improvements, building improvements and furniture and equipment. More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.

The net book value of capital assets at June 30, 2008 are as follows:

Land improvements	\$ 52,901
Building improvements	93,551
Furniture and equipment	<u>40,838</u>
Net Capital Assets	<u>\$ 187,290</u>

Long-Term Debt

In June, 2008 the School borrowed \$80,800 to finance the purchase of portable classrooms, to be repaid over the next two fiscal years. More detailed information about the capital lease can be found in Note F in the Notes to Basic Financial Statements.

Factors Bearing on the School's Future

At the time these financial statements were prepared and audited, New Branches was aware of the following existing circumstances that could significantly affect its financial health in the future:

- Salaries and employee benefits remained steady this year. New Branches continues to grant cost of living increases to its employees, based on the economy of Michigan.
- The foundation allowance for New Branches for the 2008-09 school year increased by \$112 per pupil, to \$7,552. However, the current condition of the State's economy has been difficult for the population of Michigan.
- The School is in the third year of a planned grade expansion. The financial health of the school must remain strong in order to secure funding for the upcoming facility relocation project.
- Enrollment is a key factor in our financial health. Our fifth and sixth grade program's enrollments have been increasing thanks is part to the specialized curriculum for our older students.

Contacting the School's Financial Management

This financial report is designed to provide New Branches's parents, citizens, customers, investors and creditors with a general overview of New Branches's finances and to demonstrate New Branches's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director's Office, New Branches School, 256 Alger SE., Grand Rapids, Michigan 49507.

BASIC FINANCIAL STATEMENTS

NEW BRANCHES SCHOOL
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>
Assets	
Current Assets	
Cash equivalents (Note B)	\$ 160,125
Accounts receivable	16,762
Due from other governmental units (Note C)	273,008
Prepaid expenses	<u>12,414</u>
Total Current Assets	<u>462,309</u>
Noncurrent Assets	
Capital assets (Note E)	329,220
Less accumulated depreciation	<u>(141,930)</u>
Total Noncurrent Assets	<u>187,290</u>
Total Assets	<u>649,599</u>
Liabilities	
Current Liabilities	
Accounts payable	15,628
Due to other governmental units	14,979
Salaries payable	61,466
Deferred revenue	1,020
Current portion of long term obligations	<u>38,662</u>
Total Current Liabilities	<u>131,755</u>
Noncurrent Liabilities	
Capital lease payable (Note F)	80,800
Current portion of long term obligations	<u>(38,662)</u>
Total Noncurrent Assets	<u>42,138</u>
Total Liabilities	<u>173,893</u>
Net Assets	
Invested in capital assets, net of related debt	106,490
Unrestricted	<u>369,216</u>
Total Net Assets	<u><u>\$ 475,706</u></u>

See accompanying notes to basic financial statements.

NEW BRANCHES SCHOOL
Statement of Activities
For the year ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	\$ 895,988	\$ -	\$ 239,740	\$ (656,248)
Supporting services	556,298	-	-	(556,298)
Community services	25,084	11,538	-	(13,546)
Food service	50,152	11,619	38,677	144
Total Governmental Activities	<u>\$ 1,527,522</u>	<u>\$ 23,157</u>	<u>\$ 278,417</u>	<u>(1,225,948)</u>
	General Revenues			
	State school aid, unrestricted			1,317,039
	Interest earnings			2,545
	Other			41,900
	Total General Revenues			<u>1,361,484</u>
	Change in Net Assets			135,536
	Net Assets - Beginning of Year			<u>340,170</u>
	Net Assets - End of Year			<u>\$ 475,706</u>

See accompanying notes to basic financial statements.

NEW BRANCHES SCHOOL
Balance Sheet
Governmental Funds
June 30, 2008

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Assets			
Cash equivalents (Note B)	\$ 158,420	\$ 1,705	\$ 160,125
Accounts receivable	15,157	1,605	16,762
Due from other governmental units (Note C)	273,008	-	273,008
Prepaid expenditures	12,414	-	12,414
Total Assets	<u><u>\$ 458,999</u></u>	<u><u>\$ 3,310</u></u>	<u><u>\$ 462,309</u></u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 15,562	\$ 66	\$ 15,628
Due to other governmental units	14,979	-	14,979
Salaries payable	61,466	-	61,466
Deferred revenue	-	1,020	1,020
Total Liabilities	<u>92,007</u>	<u>1,086</u>	<u>93,093</u>
Fund Balances			
Unreserved:			
Undesignated, reported in:			
General fund	366,992	-	366,992
Special revenue fund	-	2,224	2,224
Total Fund Balances	<u>366,992</u>	<u>2,224</u>	<u>369,216</u>
Total Liabilities and Fund Balances	<u><u>\$ 458,999</u></u>	<u><u>\$ 3,310</u></u>	<u><u>\$ 462,309</u></u>

See accompanying notes to basic financial statements.

NEW BRANCHES SCHOOL
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2008

Total governmental fund balances	\$ 369,216
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$329,220 and accumulated depreciation is \$141,930.	187,290
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Capital lease	<u>(80,800)</u>
Total net assets - governmental activities	<u><u>\$ 475,706</u></u>

See accompanying notes to basic financial statements.

NEW BRANCHES SCHOOL
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2008

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Revenues			
Local sources	\$ 55,983	\$ 11,619	\$ 67,602
State sources	1,382,702	1,124	1,383,826
Federal sources	75,577	37,553	113,130
Interdistrict sources	98,500	-	98,500
Total Revenues	<u>1,612,762</u>	<u>50,296</u>	<u>1,663,058</u>
Expenditures			
Current:			
Instruction	886,884	-	886,884
Supporting services	553,306	-	553,306
Community services	25,084	-	25,084
Food service	-	49,663	49,663
Capital outlay	132,117	-	132,117
Total Expenditures	<u>1,597,391</u>	<u>49,663</u>	<u>1,647,054</u>
Excess of Revenues Over Expenditures	<u>15,371</u>	<u>633</u>	<u>16,004</u>
Other Financing Sources (Uses)			
Loan/lease proceeds	80,800	-	80,800
Net Change in Fund Balances	96,171	633	96,804
Fund Balances, Beginning of Year	<u>270,821</u>	<u>1,591</u>	<u>272,412</u>
Fund Balances, End of Year	<u><u>\$ 366,992</u></u>	<u><u>\$ 2,224</u></u>	<u><u>\$ 369,216</u></u>

See accompanying notes to basic financial statements.

NEW BRANCHES SCHOOL
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2008

Net change in fund balances - total governmental funds \$ 96,804

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the Statement of Activities, the cost of these assets is capitalized
and the cost is allocated over their estimated useful lives as deprecia-
tion expense. This is the amount by which capital outlays exceeded
depreciation in the current period:

Capital outlays	\$ 132,117	
Depreciation expense	<u>(12,585)</u>	119,532

Proceeds from the sale of bonds, loans or leases are an other financing
source in the governmental funds, but increase long-term liabilities in
the Statement of Net Assets

(80,800)

Total changes in net assets - governmental activities

\$ 135,536

See accompanying notes to basic financial statements.

NEW BRANCHES SCHOOL
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2008

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Local sources	\$ 21,100	\$ 52,600	\$ 55,983	\$ 3,383
State sources	1,395,875	1,376,214	1,382,702	6,488
Federal sources	55,558	80,965	75,577	(5,388)
Interdistrict sources	52,000	92,078	98,500	6,422
Total Revenues	1,524,533	1,601,857	1,612,762	10,905
Expenditures				
Current:				
Instruction:				
Basic programs	729,005	719,532	709,618	9,914
Added needs	165,188	186,022	177,266	8,756
Supporting services:				
Pupil services	36,441	38,850	33,232	5,618
Instructional staff services	14,261	15,125	11,550	3,575
General administrative services	183,990	182,429	179,817	2,612
School administrative services	110,073	136,782	128,340	8,442
Business services	-	-	3,253	(3,253)
Operation and maintenance services	253,637	213,066	186,071	26,995
Pupil transportation services	320	320	76	244
Central services	34,035	3,270	10,967	(7,697)
Community services	-	25,460	25,084	376
Capital outlay	-	24,370	132,117	(107,747)
Total Expenditures	1,526,950	1,545,226	1,597,391	(52,165)
Excess (Deficiency) Of Revenues Over Expenditures	(2,417)	56,631	15,371	(41,260)
Other Financing Sources (Uses)				
Loan/lease proceeds	-	-	80,800	80,800
Transfers out	(12,794)	(13,245)	-	13,245
Total Other Financing Sources (Uses)	(12,794)	(13,245)	80,800	94,045
Net Change in Fund Balances	(15,211)	43,386	96,171	52,785
Fund Balances, July 1	270,821	270,821	270,821	-
Fund Balances, June 30	\$ 255,610	\$ 314,207	\$ 366,992	\$ 52,785

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2008

Note A – Summary Of Significant Accounting Policies

New Branches School received its charter under Public Act 416 of 1994 from Central Michigan University on May 18, 1995. As part of the chartering process, New Branches was instructed to file restated Articles of Incorporation with the Michigan Department of Commerce. According to the contract with Central Michigan University, New Branches is to act exclusively as a governmental agency and is not to undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. Under this contract, Central Michigan University provides certain services to New Branches including approval of New Branches operating plan, monitoring compliance with provisions of the charter contract and the selection of members for the Board of Directors. Central Michigan University is paid 3% of State Aid payments received by New Branches for such services.

The School is governed by a Board of Directors consisting of seven members approved by Central Michigan University and administered by a Director who is appointed by the aforementioned Board. The School provides educational services for approximately 184 full-time students as specified by state statute and Board of Directors policy. These services include elementary education, preschool programs, special education, community services and general administrative services.

The financial statements of New Branches School (the “School”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the School’s accounting policies are described below.

1. The Reporting Entity

The financial reporting entity consists of a primary government and its component units. The School is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the School for financial statement presentation purposes, and the School is not included in any other governmental reporting entity. Consequently, the School’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. School-Wide and Fund Financial Statements

School-Wide Financial Statements - The school-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the School as a whole. The reported information includes all of the nonfiduciary activities of the School. The School does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the School. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The School does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The School’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2008

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund is the School's only major fund. The Food Service Fund is the School's only nonmajor fund.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the school-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the School before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

School-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2008

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Fund maintained by the School is the Food Service Fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the school-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted as they are needed.

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. New Branches School has also adopted a budget for its Special Revenue Fund. A district's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Directors. Expenditures may not legally exceed budget appropriations at the function level. All appropriations lapse at the end of the fiscal year.

New Branches School utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- The Board of Directors and the Director establish proposed operating budgets for the ensuing fiscal year.
- Preliminary operating budgets are submitted to the Board of Directors by the Director. These budgets include proposed expenditures and the means of financing them.

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2008

- After the budgets are finalized, the Board of Directors adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General Fund budget was amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventory

Inventories are valued at cost (first-in, first-out). Inventories of the Food Service Fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

8. Capital Assets

Capital assets, which may include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the school-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$1,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, building improvements and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	20 years
Building improvements	20 years
Furniture and equipment	3-10 years

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2008

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

11. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- United States or federal obligation repurchase agreements.
- Banker's acceptances of United States Banks.
- Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.
- Surplus funds investment pools.

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2008

Cash Equivalents

Depositories actively used by the School during the year are detailed as follows:

1. Lake Michigan Credit Union
2. Macatawa Bank

Balances at June 30, 2008 related to cash equivalents and deposits are detailed in the Basic Financial Statements as follows:

Cash equivalents	<u><u>\$ 160,125</u></u>
------------------	--------------------------

Cash equivalents consist of bank and/or credit union checking, savings and money market accounts.

Custodial credit risk

Custodial credit risk is the risk that in the event of bank or credit union failure, the School's cash equivalents may not be returned to the School. Protection of School cash equivalents is provided by the Federal Deposit Insurance Corporation and the National Credit Union Association. At year end, the carrying amount of the School's cash equivalents was \$160,125 and the bank balance was \$235,041. Of the bank balance, \$109,029 was covered by federal depository insurance and \$126,012 was uninsured.

Note C – State School Aid

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts.

These additional State revenues pass through to Michigan schools in the form of a per pupil "Foundation Allowance" paid on a "blended count" of School pupil membership in February, 2007 and September, 2007. The 2007-08 "Foundation Allowance" for New Branches School was \$7,440 for 178 "Full Time Equivalent" students, generating \$1,383,815 in state aid payments to the School of which \$247,342 was paid to the School in July and August, 2008 and included in "Due From Other Governmental Units" of the General Fund.

Note D – Interfund Transfers

Interfund transfers represent transfers of cash from one fund to another without a requirement for repayment. There were no interfund transfers made during the year ended June 30, 2008.

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2008

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balances July 1, 2007	Additions	Deductions	Balances June 30, 2008
Capital assets being depreciated:				
Land improvements	\$ 12,831	\$ 44,377	\$ —	\$ 57,208
Buildings and improvements	18,898	87,740	—	106,638
Furniture and equipment	165,374	—	—	165,374
	<u>197,103</u>	<u>\$ 132,117</u>	<u>\$ —</u>	<u>329,220</u>
Totals at historical cost				
Less accumulated depreciation for:				
Land improvements	3,677	\$ 630	\$ —	4,307
Buildings and improvements	11,429	1,658	—	13,087
Furniture and equipment	114,239	10,297	—	124,536
	<u>129,345</u>	<u>\$ 12,585</u>	<u>\$ —</u>	<u>141,930</u>
Total accumulated depreciation				
	<u>\$ 67,758</u>			<u>\$ 187,290</u>
Net Capital Assets				

Depreciation expense was charged to School activities as follows:

Governmental activities:	
Instruction	\$ 9,104
Supporting services	2,992
Food service	489
	<u>\$ 12,585</u>

Note F – Long-term Debt

Changes in long-term debt for the year ended June 30, 2008 are detailed as follows:

	Debt Outstanding July 1, 2007	Debt Added	Debt Retired	Debt Outstanding June 30, 2008
Capital lease	\$ —	\$ 80,800	\$ —	\$ 80,800

The capital lease outstanding at June 30, 2008 is detailed as the follows:

	Final Maturity Date	Interest Rate	Outstanding Balance	Amount Due Within One Year
Capital lease				
\$80,800 Portable Classrooms June 2, 2008	June 1, 2010	10.50	\$ 80,800	\$ 38,662

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2008

The annual requirements to pay principal and interest on the capital lease outstanding are as follows:

Year Ended June 30	Principal	Interest	Total
2009	\$ 38,662	\$ 5,906	\$ 44,568
2010	42,138	2,430	44,568
	<u>\$ 80,800</u>	<u>\$ 8,336</u>	<u>\$ 89,136</u>

Note G – Operating Lease/Related Party Transactions

On January 14, 2004, New Branches School entered into a five year operating lease agreement with New Branches Seed Foundation for the rental of classroom and other facilities located at 256 Alger SE and partial use of the facility at 304 Alger SE. Prior to January 14, 2008, rent of \$10,000 per month was required. As of January 1, 2008 the monthly rental cost was adjusted to \$7,000 per month or \$84,000 per year. Rental expense was \$102,000 for the year ended June 30, 2008. As part of the lease agreement, New Branches School shall at its own expense keep and maintain all parts or portions of the property, including the repair or replacement of roofs, heating and plumbing during the primary term of the lease. The New Branches School Director/Principal is also on the Board of Directors of the New Branches Seed Foundation.

Note H – Retirement Plan

Substantially all School employees participate in the Michigan Public School Employees' Retirement System (MPERS), a multiple employer public retirement system. The School payroll for employees covered by MPERS for the year ended June 30, 2008 was \$780,597. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan-Fixed (MIP-Fixed). Effective January 1, 1990, all new employees are automatically enrolled in the MIP-Graded Plan. Participants in the MIP-Fixed or MIP-Graded Plans receive benefits in addition to those available under the Basic Plan. The contribution rate for MIP-Fixed participants is 3.9% of salary. The contribution rate for MIP-Graded participants is a graduated rate based on total wages: calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000. All MIP members may retire at age 46 with 30 years of service; at age 60 with 5 years of service; at age 55 with 15 years of service (with stipulations); at age 60 with 10 years of service (with stipulations); or at age 60 with 5 years of service (with stipulations). Benefits are based on a final average compensation period of 5 years for Basic Plan participants and 3 years for Member Investment Plan participants.

NEW BRANCHES SCHOOL
Notes to Basic Financial Statements
June 30, 2008

School districts in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPSERS plan. The contribution rate was 17.74% for the fiscal year ending September 30, 2007 and 16.72% for the fiscal year beginning October 1, 2007. The School's contributions to the plan for the fiscal years ended June 30, 2008, 2007 and 2006 were \$131,377, \$120,442 and \$96,811, respectively.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPSERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPSERS does not make separate measurements of assets and actuarial accrued liability for individual schools, instead using the aggregate actuarial cost method. The actuarial accrued liability at September 30, 2006 (the latest reporting date available expressed as \$ in millions) for retirement benefits for the MPSERS as a whole, determined through an actuarial valuation performed as of that date, was \$49,136. Net assets available for retirement benefits on that date were \$42,995 leaving an unfunded actuarial accrued liability of \$6,141. The total unfunded actuarial accrued liability decreased by \$3,102 from September 30, 2005 to September 30, 2006. At September 30, 2006 the funded ratio of actuarial accrued liability was 87.5%; covered payroll totaled \$9,806, and unfunded actuarial accrued liability was 62.6% of covered payroll.

Post-employment benefits for health, dental, and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS as discussed above. At September 30, 2006, the actuarial accrued liability for post-employment insurance benefits for the MPSERS as a whole (expressed as \$ in millions) was \$25,387. The MPSERS net assets available for these benefits were \$630 leaving an unfunded actuarial accrued liability of \$24,757. This is the first year of reporting this liability, which is now required to be disclosed in compliance with Governmental Accounting Standards Board (GASB) Statement No. 43. At September 30, 2006 the funded ratio of actuarial liability was 2.5%; covered payroll totaled \$9,806, and unfunded actuarial liability was 252.5% of covered payroll.

Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2007 Annual Report of the MPSERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

Note I – Stewardship, Compliance and Accountability

The following School fund had actual expenditures exceed final budgeted expenditures for the year ended June 30, 2008, as follows:

	Budget	Actual	Negative Variance
General Fund:			
Business services	\$ —	\$ 3,253	\$ 3,253
Central services	3,270	10,967	7,697
Capital outlay	24,370	132,117	107,747

SUPPLEMENTAL INFORMATION

GENERAL FUND

To account for resources which are traditionally associated with the general operation of the School and not required to be accounted for in another fund.

NEW BRANCHES SCHOOL
General Fund
Comparative Balance Sheet
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Cash equivalents	\$ 158,420	\$ 143,107
Accounts receivable	15,157	3,443
Due from other governmental units	273,008	200,164
Prepaid expenditures	<u>12,414</u>	<u>7,286</u>
Total Assets	<u><u>\$ 458,999</u></u>	<u><u>\$ 354,000</u></u>
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 15,562	\$ 16,021
Due to other governmental units	14,979	24,583
Salaries payable	<u>61,466</u>	<u>42,575</u>
Total Liabilities	<u>92,007</u>	<u>83,179</u>
Fund Balances		
Unreserved:		
Undesignated	<u>366,992</u>	<u>270,821</u>
Total Liabilities and Fund Balances	<u><u>\$ 458,999</u></u>	<u><u>\$ 354,000</u></u>

NEW BRANCHES SCHOOL
General Fund
Comparative Schedule of Revenues
For the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Local sources:		
Interest earnings:		
Interest on cash equivalents	\$ 2,545	\$ 1,778
Other local revenue:		
Child care fees	11,538	18,985
Donations	30,000	57,513
Miscellaneous	11,900	1,699
	<u>53,438</u>	<u>78,197</u>
Total local sources	55,983	79,975
State sources:		
State aid	1,382,702	1,172,597
Federal sources:		
Title I	42,924	21,811
Title IIA	6,225	5,285
Title V	317	177
I.D.E.A. program	25,704	19,544
Drug free schools	407	433
Total federal sources	<u>75,577</u>	<u>47,250</u>
Interdistrict sources:		
Special education - county	92,078	95,709
Medicaid	6,422	-
	<u>98,500</u>	<u>95,709</u>
Total Revenues	<u><u>\$ 1,612,762</u></u>	<u><u>\$ 1,395,531</u></u>

NEW BRANCHES SCHOOL
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2008 and 2007

	2008	2007
Current:		
Instruction:		
Basic programs:		
Elementary:		
Salaries	\$ 481,658	\$ 385,968
Employee benefits	198,222	164,679
Purchased services	1,194	1,028
Supplies	25,328	31,657
Capital outlay	3,216	-
Total basic programs	<u>709,618</u>	<u>583,332</u>
Added needs:		
Special education:		
Salaries	37,184	35,757
Employee benefits	15,095	14,744
Purchased services	83	-
Supplies	607	143
	<u>52,969</u>	<u>50,644</u>
Compensatory education:		
Salaries	69,448	66,647
Employee benefits	39,396	27,838
Purchased services	9,435	9,278
Supplies	6,018	1,203
	<u>124,297</u>	<u>104,966</u>
Total added needs	<u>177,266</u>	<u>155,610</u>
Supporting services:		
Pupil services:		
Physical therapist services:		
Purchased services	6,829	7,819
Psychological services:		
Purchased services	1,651	2,604
Speech pathology services:		
Purchased services	14,585	13,884
Social worker services:		
Purchased services	7,808	11,330
Teacher consultant services:		
Purchased services	2,359	2,653
Total pupil services	<u>33,232</u>	<u>38,290</u>
Instructional staff services:		
Improvement of instruction:		
Salaries	1,980	-
Employee benefits	651	-

(Continued)

NEW BRANCHES SCHOOL
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2008 and 2007

	2008	2007
Instructional staff services: (Continued)		
Purchased services	\$ 6,020	\$ 10,400
Supplies	2,796	-
	<u>11,447</u>	<u>10,400</u>
Other instructional staff services:		
Salaries	83	2,485
Employee benefits	20	630
	<u>103</u>	<u>3,115</u>
Total instructional staff services	<u>11,550</u>	<u>13,515</u>
General administrative services:		
Board of education:		
Purchased services	8,670	10,385
Supplies	-	197
Miscellaneous	332	-
	<u>9,002</u>	<u>10,582</u>
Executive administration:		
Salaries	92,323	88,293
Employee benefits	34,518	32,003
Purchased services	43,086	36,648
Miscellaneous	888	-
	<u>170,815</u>	<u>156,944</u>
Total general administrative services	<u>179,817</u>	<u>167,526</u>
School administrative services:		
Office of the principal:		
Salaries	57,622	57,028
Employee benefits	31,274	18,258
Purchased services	20,055	14,629
Supplies	5,160	5,411
Miscellaneous	14,229	4,661
Total school administrative services	<u>128,340</u>	<u>99,987</u>
Business services:		
Salaries	-	819
Employee benefits	113	197
Purchased services	1,938	-
Miscellaneous	1,202	-
Total business services	<u>3,253</u>	<u>1,016</u>
Operation and maintenance services:		
Operation and maintenance:		
Salaries	9,148	4,034
Employee benefits	6,653	6,828
Purchased services	143,799	160,533
Supplies	25,151	22,438
Capital outlay	1,320	-
Total operation and maintenance services	<u>186,071</u>	<u>193,833</u>

(Continued)

NEW BRANCHES SCHOOL
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Pupil transportation services:		
Pupil transportation:		
Purchased services	\$ 76	\$ 303
Central services:		
Staff/personnel services:		
Purchased services	4,112	468
Technology services:		
Salaries	2,756	2,747
Employee benefits	806	591
Purchased services	3,293	3,399
	<u>6,855</u>	<u>6,737</u>
Total central services	<u>10,967</u>	<u>7,205</u>
Community services:		
Community activities:		
Miscellaneous	-	12
Child care:		
Salaries	18,387	16,336
Employee benefits	4,381	3,556
Supplies	1,536	1,212
Miscellaneous	180	-
	<u>24,484</u>	<u>21,104</u>
Other community services:		
Miscellaneous	600	-
Total community services	<u>25,084</u>	<u>21,116</u>
Capital outlay:		
Facilities acquisition	132,117	160
Total Expenditures	<u><u>\$ 1,597,391</u></u>	<u><u>\$ 1,281,893</u></u>

NONMAJOR GOVERNMENTAL FUND

NEW BRANCHES SCHOOL
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2008

	Budget	Actual	Variance - Positive (Negative)
Revenues			
Local sources	\$ 13,100	\$ 11,619	\$ (1,481)
State sources	650	1,124	474
Federal sources	35,525	37,553	2,028
Total Revenues	<u>49,275</u>	<u>50,296</u>	<u>1,021</u>
Expenditures			
Current:			
Food service	<u>62,520</u>	<u>49,663</u>	<u>12,857</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(13,245)</u>	<u>633</u>	<u>13,878</u>
Other Financing Sources			
Transfers in	<u>13,245</u>	<u>-</u>	<u>(13,245)</u>
Net Change in Fund Balances	<u>-</u>	<u>633</u>	<u>633</u>
Fund Balances, July 1	<u>1,591</u>	<u>1,591</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ 1,591</u></u>	<u><u>\$ 2,224</u></u>	<u><u>\$ 633</u></u>

SPECIAL REVENUE FUND

Food Service—to account for monies received from food service activities and federal subsidies for use in administering the hot lunch program of the School.

NEW BRANCHES SCHOOL
Food Service Special Revenue Fund
Comparative Balance Sheet
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Cash equivalents	\$ 1,705	\$ 1,905
Accounts receivable	1,605	626
Inventory	<u>-</u>	<u>251</u>
Total Assets	<u><u>\$ 3,310</u></u>	<u><u>\$ 2,782</u></u>
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 66	\$ -
Deferred revenue	<u>1,020</u>	<u>1,191</u>
Total Liabilities	<u>1,086</u>	<u>1,191</u>
Fund Balances		
Unreserved:		
Undesignated	<u>2,224</u>	<u>1,591</u>
Total Liabilities and Fund Balances	<u><u>\$ 3,310</u></u>	<u><u>\$ 2,782</u></u>

NEW BRANCHES SCHOOL
Food Service Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Revenues		
Local sources:		
Sales and admissions:		
Children's lunches	\$ 11,473	\$ 11,119
Adult lunches	146	57
	<u>11,619</u>	<u>11,176</u>
State sources	1,124	664
Federal sources	<u>37,553</u>	<u>28,111</u>
Total Revenues	<u>50,296</u>	<u>39,951</u>
Expenditures		
Current:		
Food service:		
Director's salary	14,717	18,357
Employee benefits:		
Employee insurance	386	5,052
Retirement	2,469	3,241
Social Security	1,126	1,393
Workers' compensation insurance	-	93
Food	23,664	15,804
Delivery	2,288	1,009
Nonedible supplies	3,713	4,239
New equipment	<u>1,300</u>	<u>-</u>
Total Expenditures	<u>49,663</u>	<u>49,188</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>633</u>	<u>(9,237)</u>
Other Financing Sources		
Transfers in	<u>-</u>	<u>9,237</u>
Net Change in Fund Balances	633	-
Fund Balances, July 1	<u>1,591</u>	<u>1,591</u>
Fund Balances, June 30	<u><u>\$ 2,224</u></u>	<u><u>\$ 1,591</u></u>

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

October 8, 2008

The Board of Directors
New Branches School
Kent County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of New Branches School as of and for the year ended June 30, 2008, which collectively comprise New Branches School's basic financial statements and have issued our report thereon dated October 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered New Branches School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of New Branches School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of New Branches School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects New Branches School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of New Branches School's financial statements that is more than inconsequential will not be prevented or detected by New Branches School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by New Branches School's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as described above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Branches School's are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of New Branches School in a separate letter dated October 8, 2008.

This report is intended solely for the information and use of management, the Board of Directors, the Michigan Department of Education, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountants

Hungerford, Aldain, Nichols & Carter, P.C.

Certified Public Accountants

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

October 8, 2008

The Board of Education
New Branches School
Kent County, Michigan

The following comments pertain to our audit of the financial records of New Branches School as of and for the year ended June 30, 2008. The comments are made in accordance with Statement on Auditing Standards No. 112 "*Communicating Internal Control Related Matters Identified in an Audit*" which has the following two unconditional requirements:

- The auditor must evaluate identified *control deficiencies* and determine whether those deficiencies, individually or in combination, are *significant deficiencies* or *material weaknesses*.
- The auditor *must communicate, in writing, significant deficiencies and material weaknesses* to management and those charged with governance. This communication includes significant deficiencies and material weaknesses identified and communicated to management and those charged with governance in prior audits but not yet remediated.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is *more than a remote likelihood* that a misstatement of the entity's financial statements that is *more than inconsequential* will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in *more than a remote likelihood* that a *material misstatement of the financial statements* will not be prevented or detected by the entity's internal control.

The following describe circumstances that may be control deficiencies, significant deficiencies, or material weaknesses:

- Inadequate *design* of internal control over a significant account or process.
- Inadequate *documentation* of the components of internal control.
- Insufficient *control consciousness* within the organization, for example, the tone at the top and the control environment.
- Inadequate or absent *segregation of duties* within a significant account or process.
- Inadequate design of *information technology* (IT) general and application controls.
- Inadequate design of *monitoring* controls used to assess the design and operating effectiveness of internal controls.
- The absence of an internal process to *report deficiencies* in internal controls to management on a timely basis.
- Employees or management who *lack the knowledge and training* to fulfill their assigned functions. For example, in an entity that prepares financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) requirements, the person responsible for the accounting and reporting function lacks the level of skills and knowledge necessary to apply GAAP and GASB standards in recording the entity's financial transactions or *preparing its financial statements* (including the notes to basic financial statements).

The management of New Branches School is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

In planning and performing our audit of the financial statements of New Branches School as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered New Branches School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

- Inadequate *segregation of duties* in the School business office, which leads to a lack of independent monitoring of the accounting functions of the Business Director.
- Inadequate design and implementation of *monitoring controls* (general ledger and payroll) in the School business office.

This communication is intended solely for the information and use of management, the Board of Directors, others within the organization, and the Michigan Departments of Education and Treasury. It is not intended to be and should not be used by anyone other than these specified parties.

Hungerford, Aldrin, Nichols & Carter, P.C.

Certified Public Accountants

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

October 8, 2008

The Board of Education
New Branches School
Kent County, Michigan

The following comments pertain to our audit of the financial records of New Branches School as of and for the year ended June 30, 2008. The comments are made in accordance with Statement on Auditing Standards (SAS) No. 114 "The Auditor's Communication with Those Charged with Governance" which requires that in all audits, certain matters are to be communicated with those charged with governance in relation to an audit of financial statements. The communications required by SAS No. 114, if pertinent to the examination, are as follows:

The Auditor's Responsibility Under U.S. Generally Accepted Accounting Principles

As stated in our Engagement Letter dated May 1, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you, or management, of your responsibilities.

Auditor's Independence

Our independence policies and procedures are designed to provide reasonable assurance that our firm and its personnel comply with applicable, independence standards. Our policies address financial interest, business and family relationships, and non-audit services that may be thought to bear on independence. In addition, our policies restrict certain non-audit services that may be provided by our firm staff and require our audit clients to accept certain responsibilities in connection with the provision of permitted non-audit services.

An Overview of the Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in the Engagement Letter dated May 1, 2008.

Significant Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our Engagement Letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by New Branches School are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Significant Difficulties Encountered During the Audit

We were required to spend significant additional audit field work time to complete our required audit procedures and reconcile School accounting records to the correct balances in the following three areas:

- Reconciling School year-end bank balances per the general ledger with June 30, 2008 bank reconciliations for the General and Payroll bank accounts.
- Reviewing the detail in various General Fund accounts and adjusting/reclassifying transactions and balances to the correct accounts/amounts at June 30, 2008.
- Due to the abrupt termination of the School Business Director in June, 2008, a detailed review of cash and bank activities for the entire 2007-08 fiscal year was completed to insure the integrity of the accounting records, receipts/deposits and expenditures/payroll transactions completed during the fiscal year.

Disagreements with Management

We encountered no significant disagreements in dealing with management in performing and completing our audit.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Management Representations

We have requested certain representations from management that are included in the Management's Representation Letter dated October 8, 2008.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. During the course of our audit the following adjustments of a significant nature were made to the accounting records of the School to bring the balances to those presented in the financial statements. There were no adjustments proposed during the audit not accepted and recorded by School management.

General Fund

1. \$4,064 to record the initial payment made on the portable classrooms loan.
2. \$10,083 to void an insurance premium check issued twice.
3. \$3,705 to reverse an IDEA account receivable entered twice.
4. \$24,714 to record year-end accounts receivable from the State for federal programs.
5. \$7,000 to adjust the payment made for July rent to prepaid expenditures.
6. \$3,000 to classify IRS penalties paid out of the Contingency expenditure account.
7. \$4,888 to classify custodial salaries and benefits to the proper expenditure accounts.
8. \$2,475 to classify business director salaries to the proper expenditure account.
9. \$2,368 to write-off the estimated uncollectible portion of child care fees.
10. \$2,525 to classify Title I expenditures to the proper expenditure accounts.
11. \$3,688 to adjust At Risk State aid to actual per the August, 2008 status report.
12. \$4,023 to record the 2007-08 Medicaid payment due from KISD at year-end.

Food Service Fund

1. \$9,535 to adjust the Food Service bank account to actual at year-end.

Other Significant, Relevant Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to, and during the process of, the School's audit. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Significant new auditing standards from the American Institute of Certified Public Accountants were required to be implemented during the 2007-08 audit process involving the auditor's review, observation, evaluation and documentation of the School's significant areas of internal controls. Our findings and comments regarding the School's internal control processes and procedures based on these new auditing standards are detailed in Appendix A, attached to this letter.

Current auditing standards (SAS No. 112 "Communicating Internal Control Related Matters Identified in an Audit") also require that auditors communicate, in writing, any significant deficiencies and/or material weaknesses in the design or operation of an entity's internal controls discovered during the audit, which we have done in a separate letter accompanying the audited financial statements.

Other Comments

The General Fund balance increased by \$96,171 to \$366,992 at June 30, 2008. This balance represents approximately 23.4 percent of the School's 2008-09 expenditure budget (up from 21 percent at June 30, 2007). Maintaining a fund balance of at least 10 to 20 percent of the ensuing year's expenditure budget is advisable for New Branches School. This gives the School more stable operating funds during the year, helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the School. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

Closing

This communication is intended solely for the information and use of the New Branches School Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties. We have furnished a copy of this letter to the Michigan Departments of Education and Treasury as an enclosure with the audited financial statements as required by the State of Michigan.

Hungerford, Aldrin, Nichols & Austin, P.C.

Certified Public Accountants

HUNGERFORD, ALDRIN, NICHOLS & CARTER, PC
Statement on Auditing Standards No. 114 Letter
Appendix A - Comments On Significant Internal Control Areas for
NEW BRANCHES SCHOOL
For the Year Ended June 30, 2008

Listed below are the internal control areas that auditors are now required to review, evaluate and document during the audit process, if those areas are significant to an entity's operations. For each of the areas considered to be "significant" the auditor must answer all of the following questions, inspect supporting documentation and observe client compliance with its prescribed procedures, i.e. "walkthrough" the process as it is being performed.

1. Is the control placed in operation?
2. What audit assertions apply to this control?
3. Is the control a key control?
4. Is the control dependent on IT?
5. Is the control manual or automated?
6. Is the control properly designed?
7. Is the control implemented?
8. Comments/transactions or documentation examined for walkthrough
9. Is a control deficiency possible?

The significant internal control areas of New Branches School are listed below. Each bullet point describes the "significant" internal controls that apply in each internal control area. The bolded comments represent suggestions for improvements in the School's internal controls, based on our observations during the 2007-08 audit process.

GENERAL CONTROLS

- Documentation of the internal control system
 1. **The School should complete a documented system for all accounting procedures and internal controls to insure that its operations are completed as designed and so third parties can review and monitor these policies to insure independent oversight of these processes.**
- Segregation of duties
 1. **As the number of employees in the School business office is limited, job/sharing, cross training, and independent review of accounting procedures should be implemented to the greatest extent possible.**
- Independent monitoring of accounting functions
 1. **Due to the limited number of personnel in the School business office, independent monitoring of the Business Director's many accounting functions is difficult. The School should consider utilizing an independent consultant to perform monitoring/review functions on a regular basis.**

BUDGETS

- Budget adoptions, amendments for all required funds
 - 1 **The General Fund budget (for both revenues and expenditures) must be closely monitored near year-end to anticipate changes from original expectations and amend function level balances to avoid significant variances between final actual and budgeted results.**
- Budget accounting principles consistent with actual transactions
- Documented authorization for all budget amendments

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CASH

- Cash collection/receipting procedures
 1. **Periodic monitoring of the cash collection/deposit process should be completed by business office personnel in the areas outside of the central office where cash is commonly collected (food service, preschool/childcare). Uniform documented procedures should be established to insure the safety of School funds in each of these areas.**
- Cash storage/deposit procedures
- Bank account security/authorization policies
- Check preparation/signing/security procedures
- Non-check disbursement authorization/control policies and procedures
- Bank reconciliation preparation/monitoring procedures

INVESTMENTS

- Investment policy adoption/implementation/monitoring procedures
 1. **The School's Investment Policy should be reviewed annually by the Business Director and the Board of Directors to respond to the rapid changes occurring in the investment environment, and to insure compliance with current accounting disclosure requirements. Someone in School governance (a Board of Directors member) should be responsible for reviewing School investments on a regular basis to insure that the requirements of the Investment Policy are being followed. This process should include a review of FDIC insurance coverage with each financial institution utilized by the School.**
- Investment purchase approval procedures
- Investment custodial /security policies/procedures
- Investment record keeping/reconciliation procedures
- Investment return policies/procedures/monitoring

REVENUES AND RECEIVABLES

- Budgeting and actual-to-budget monitoring procedures
- Property tax collection/monitoring procedures
- State revenue sharing verification/reconciliation procedures
- Billing/collection procedures for fees/charges for services

EXPENDITURES AND PAYABLES

- Purchase order initiation/approval/processing procedures
- Invoice processing/approval/payment procedures
- Purchase pricing/cut-off/compliance review procedures
- Budget-to-actual comparison/review procedures

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Appendix A - Comments On Significant Internal Control Areas for
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PAYROLL

- Hiring/personnel input procedures
- Timekeeping/approval procedures
- Payroll preparation/distribution/general ledger procedures
- Cost allocation procedures/monitoring
- Budget-to-actual comparison/review procedures
- Payroll bank account transaction monitoring/reconciliation
 1. **The payroll register should be reviewed periodically by someone independent of the Business Director before payroll checks are signed and distributed.**

CAPITAL ASSETS

- Acquisition/disposal/capitalization approval/documentation
- Asset custody/security/recordkeeping procedures
- Construction project record keeping/monitoring procedures
- Lapse schedule/depreciation record keeping/monitoring procedures
 1. **The depreciation lapse schedule should be regularly and accurately updated to reflect current School activities and balances.**

DEBT AND DEBT SERVICE

- Debt issuance and liability transaction approval
- Debt proceeds expenditure/monitoring procedures
- Debt agreement compliance monitoring procedures
- Principal and interest payment/monitoring procedures
- Debt refunding approval/documentation/monitoring

GRANTS AND SIMILAR PROGRAMS

- The School has procedures for identifying federal, state and other awards
- The School has accounting procedures for identifying and recording receipts and expenditures of program funds separately and in the appropriate cost category for each award or grant
- The School has a documented time schedule for filing financial reports with Grantors and policies for identifying special requirements of grants
- School funds are accounted for in separate grant control accounts
- The School has established controls to preclude charging federal award Programs with unallowable costs and expenditures
- The School has responsible individuals who monitor matching requirements, levels of effort, and earmarking limitations to insure School compliance with applicable laws and regulations
- Reconciliations of grant financial reports with supporting accounting records Are prepared, reviewed, and approved by a responsible official before filing
- Financial reports and claims for advances and reimbursements agree with the supporting financial records and general ledger
- A responsible official approves requests for advances or reimbursements.
- The School's calculation of required School funds considers updated estimates of allowable program costs

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- A responsible member of management reviews costs charged to direct and indirect cost centers in accordance with applicable grant requirements and governmental management circulars pertaining to cost principles
- A responsible member of management uses a set checklist to review and approve the provision of services to ensure that recipients are eligible under specific program requirements
- The School's employee time allocation method is in accordance with the Standards outlined in federal circulars or agency regulations

INFORMATIONAL TECHNOLOGY

- Computer access is limited to specific persons and individuals have access only
 - **The School should consider further strengthening the process of assigning user access rights to ensure that access is being granted based on an employee's job responsibilities. Access should be limited to applications and files that are necessary to perform each individual's daily job duties.**
- Passwords are required to be complex and to be changed at regular intervals
 - **Password security should be reviewed and improved to insure future data security.**
- There are appropriate documented procedures for back-up and storage of applications and data files
 - **The School should develop a comprehensive back-up and recovery and data retention plan as part of a documented disaster recovery plan.**
- There is a documented disaster recovery plan and it has been tested
 - **A formal disaster recovery plan should be created and updated on an annual basis to ensure the timely recovery of data and the functionality of the School's information technology assets.**
- The district has well defined policies and procedures in place for which address performing patches and upgrades, user access administration, general backup and recovery operations and timelines for performing regular security and configuration settings reviews.
 - **The School should consider taking additional steps to establish a defined set of standard operating procedures and policies and evaluate their effectiveness throughout the year. Doing so will help to establish a stable and secure IT operating environment that consistently produces reliable data and reduces the risk of fraud or the loss of sensitive data.**